

# **Commodity Trading and Price Risk Management**

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## **Introduction**

### **Understanding Commodities**

Commodities are products that can be bought, sold or traded in different kinds of markets. Commodities are the raw materials that are used to create products which are consumed in day-to-day life around the world, from food products in India to building new homes in France or to running cars in the US.

### **Classification of Commodities**

Soft commodities – agricultural products such as corn, wheat, coffee, cocoa, sugar and soybean; and livestock and hard commodities – natural resources that need to be mined or processed such as crude oil, gold, silver and rubber.

For centuries commodities have played a major role in shaping the global Political economy. History is full with examples of how shortage of critical commodities sparked huge public outcry and social unrest. Of late, the world community is concerned over the environmental and health costs of production and consumption of certain commodities and impact on society. In the global markets, there are four categories of commodities in which trading takes place: Energy (e.g., crude oil, heating oil, natural gas and gasoline). Metals, Livestock and meat Agricultural.

### **Programme Objectives**

- To understand commodity markets
- To understand the various risk exposure in commodity markets
- To understand risk minimizing strategies in commodity markets
- To understand the policy issues and challenges in commodity markets

### **Programme Contents**

#### **Understanding Commodities**

What is a commodity?

Which kinds of commodities are traded in the world?

Why are commodities important?

What are the main differences between commodity spot and derivatives markets?

Why are prices in global commodities markets volatile?

## **Understanding Derivatives and Commodity Futures Trading**

What is a derivative contract?

What are exchange-traded derivatives?

What are over-the-counter (OTC) derivatives?

Why are derivatives considered a double-edged sword?

What are the key functions of commodity futures trading?

Which commodities are suitable for futures trading?

What is an “underlying” and how is it different from a “contract”?

What is convergence?

## **Commodity Futures Markets in India**

Are commodity derivatives new in India?

What was the rationale behind setting up commodity futures exchanges in India?

What are the major commodity exchanges in India?

What is the status of regional commodity exchanges?

Which commodities are allowed in the Indian futures markets?

Are options allowed in commodity derivatives trading in India?

Are deliveries compulsory in Indian commodity futures markets?

What is staggered delivery?

## **Policy Issues and Challenges**

Is speculation good for commodity futures markets?

Why is there so much excessive speculation in the Indian futures markets?

Are futures markets performing the two important functions of price discovery and price risk management in India?

## **Target Group**

Financial Institutions dealing with Commodities, Companies dealing in Exports & Imports of commodities, Multinational Corporations, traders, bankers and any executive interested in understanding the operations of global commodity markets.